

The Netherlands

Prime Minister: Jan Peter BALKENENDE	Population (2007 est.): 16,357,992
Finance Minister: Wouter BOS	GDP (2007): €567.1 billion
Central Bank Governor: Nout WELLNIK	GDP/capita: €34,600
Joined the EU: 1957	GDP by sector:
Adopted the Euro: 1999	Agriculture 2.1%
Currency prior to Euro: Dutch Gilder	Industry 24.1%
	Services 73.7%
	Life Expectancy (women / men): 82 / 78
	2005 2006 2007 2008*
Real GDP growth rate	2.0% 3.4% 3.5% 2.3%
Inflation	1.5% 1.7% 1.6% 2.5%
Unemployment Rate	4.7% 3.9% 3.2% 3.0%

* forecast

The Netherlands in the EU and the Euro Area

The Netherlands was one of the first six Member States of the EU. In 1957, it joined what was then called the European Economic Community. In 1948, it had been a founding member of the "Benelux" customs union (an area of reduced/extinguished tariffs on trade), along with Belgium and Luxembourg. Some people regard this customs union as the precursor to the modern EU.

The Netherlands was one of the founding members of the Euro area and it was among the first group of countries to adopt the Euro, on January 1, 1999. Euro notes and coins were introduced on January 1, 2002, replacing the Dutch Gilder.

Economic Overview of The Netherlands

The economy of the Netherlands depends heavily on foreign trade. The industrial activities include: food processing, chemicals, petroleum refining and electrical machinery. The agricultural sector also provides large surpluses for the food-processing industry and for exports, although only 2% of the population is employed in this area. The Dutch economy is noted for stable industrial relations, moderate unemployment and inflation, a sizable current account surplus, and an important role as a European transportation hub.

In 2007, Dutch GDP grew by 3.5%. Exports benefited greatly from increased demand in the Euro area and improved price competitiveness. Competitiveness itself has been helped by improvements in the macroeconomic and business environments, together with technological innovation. Private consumption increased as a result of higher real wages and employment gains, while rising stock prices contributed to a cyclical strengthening of the financial sector. However, a sharp drop in consumer confidence is expected to start having a negative impact on consumption as consumers expect their personal financial situation to worsen in view of the financial crisis. Growth in 2008 is forecasted to remain well below the long term average.

The Executive Board of the IMF¹ noted that the Netherlands face considerable challenges in the areas of imminent population aging, which will shrink working age population starting early in the next decade, and low productivity growth. Making progress on labor and product market reforms aimed at raising the employment rate and stimulating faster productivity, gains remain key elements to tackling the challenges of aging.

Some Economic Challenges Facing The Netherlands

The GDP-per-capita gap vis-à-vis the best performing countries can mostly be explained by relatively low labor utilization, arising from short hours worked and low participation of specific groups.²

Aging Population

The Netherlands, like many of its neighbours, faces the challenge of an aging population. According to the IMF, the Netherlands faces a rising dependency ratio (proportion of pension drawers to tax payers) in the next few decades. The Netherlands is in an advantageous position to address this for it has a favourable initial fiscal position and a large fully funded second pension pillar. However, it must still work to ensure fiscal stability through a combination of reforms. In particular, the labour supply must be increased and jobs created in the near future if the tax base is to grow sufficiently to cope with rising pension demands.

Discouraging Early Retirement

In the Netherlands, maximum labour utilization is being held back because of the appealing benefits of sickness and disability leave schemes which are used as routes to early retirement. The benefits and supplements provided by the government for such leave make early retirement an appealing option and this in turn serves to augment the burden on the state pension system. Administrative extensions of wage agreements that include clauses for topping up disability benefits further enhance this effect.

High Income Taxes and Phasing Out of Childcare Subsidies

Very high marginal income taxes combined with the phasing out of childcare subsidies have served to deter low-income workers, especially second-earners, from full participation in the economy. Many mothers only work part-time because childcare is expensive and the taxation on their salaries so high. Were this to be reformed then labor participation would be likely to expand and this in turn would help ease the burden on pensions created by the aging population. In 2007, the government has started to implement a reform plan aimed at lowering the costs of child care by reserving extra funds and making the employer contribution to child care compulsory.

Strengthen competition

Local government ownership in public transport, electricity and gas constitutes effective barriers to entry. The government has started to implement a full ownership separation of the energy distribution networks from the supply companies in 2008. Companies are given two and half years to accomplish such separation. Competitive tenders have opened up public transport activities to private operators. In several bigger cities, however, public transport companies are still owned by local governments. Furthermore, competition and employment in retail distribution is comparatively weak as there are still restrictions on large-format retail stores and remaining obstacles to shop opening hours, in particular on Sundays.

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn0864.htm> 06/03/2008

² "Economic Reform: Going for Growth." OECD. 2008